



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Performance Audit

Selected Community Colleges' Reporting of Activities Classification Structure Data

Report Number:
64-500-06

Released:
October 2006

The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978. Also, uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula, based on ACS data, to be used to determine State aid for each community college. The Department of Labor and Economic Growth (DLEG) is responsible for the collection and analysis of certain ACS data.

Audit Objective:

To assess whether community colleges reported ACS data to DLEG in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual 2003 for Michigan Community Colleges (ACS Manual), the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

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Audit Conclusion:

We concluded that the selected community colleges generally did not report ACS data to DLEG in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual, MUFR, and DLEG's annual instructions.

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Material Conditions:

Eight colleges did not accurately report occupational contact hour data on their ACS 6 reports, including four colleges that

materially overstated their reported occupational contact hours (Finding 1).

Two colleges did not maintain documentation to support the accuracy of course enrollment data reported on their ACS 6 reports in accordance with Act 154, P.A. 2005, and DLEG's annual instructions (Finding 2).

Seven colleges did not accurately report ACS 3 expenditure data in accordance with the ACS Manual and DLEG's annual instructions (Finding 3).

One college did not report student headcount and contact hour data on its ACS 6 reports in accordance with the ACS Manual and DLEG's annual instructions (Finding 4).

Five colleges reported data for ineligible courses to DLEG on their ACS 6 reports (Finding 5).

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Reportable Conditions:

Our audit also disclosed reportable conditions related to expenditure reporting on ACS 3 reports, reporting of local financing, activity measures for energy and water costs, activity measures for physical plant, instructional activity classification, course contact hours, and seminar and conference course data (Findings 6 through 12).

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Agency Responses:

Our audit report includes 12 findings and 12 corresponding recommendations. We discussed our audit findings with the management of each community college. The community colleges' responses indicated general concurrence with our findings.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

October 10, 2006

The Honorable Shirley M. Johnson, Chair
Senate Appropriations Committee
Michigan Senate
and
The Honorable Scott Hummel, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Mr. Robert W. Swanson, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan
and
Ms. Mary A. Lannoye, State Budget Director
Office of the State Budget
Department of Management and Budget
George W. Romney Building
Lansing, Michigan

Dear Senator Johnson, Representative Hummel, Mr. Swanson, and Ms. Lannoye:

This is our report on the performance audit of Selected Community Colleges' Reporting of Activities Classification Structure Data for the colleges' fiscal year 2004-05 (July 1, 2004 through June 30, 2005). This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and was mandated by Act 154, P.A. 2005, the annual appropriations act for community colleges.

This report contains our report summary; description of reported data; audit objective, scope, and methodology; subsequent event; and agency responses; comment, findings, and recommendations; a summary of occupational contact hours reported and a summary of audit findings by college, presented as supplemental information; and a glossary of acronyms and terms.

Annual appropriations acts require that the audited institutions develop formal responses within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us by the community colleges.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Reported Data

The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978 (a section of the fiscal year 1978-79 appropriations act for community colleges). Also, uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula* to be used to determine State aid for each community college. The funding formula is based on ACS data, such as full-time equated students, contact hours*, expenditures, and other activity measures. Beginning in September 2002, the Department of Labor and Economic Growth (DLEG) convened the ACS Task Force to discuss and suggest changes to the ACS reporting. In June 2003, DLEG issued the ACS Manual 2003 for Michigan Community Colleges (ACS Manual) for implementation during the fiscal year ended June 30, 2004. The revised ACS Manual streamlined the instruction reporting, added a new category for technology, incorporated the general and designated funds into the ACS report as an operating fund, and also allowed flexibility by the community colleges in reporting and allocating costs on a consistent basis. For fiscal year 2004-05, Act 154, P.A. 2005, continued with the reporting requirements as established in Act 117, P.A. 1984.

DLEG is responsible for the collection and analysis of certain data submitted by the community colleges on the various ACS reports. It is important for comparative analyses that all community colleges report their enrollment and other ACS data in a consistent manner that adheres to the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions to provide DLEG, the Legislature, and other users with comparative enrollment and expenditure data.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology; Subsequent Event; and Agency Responses

Audit Objective

The audit objective for our performance audit* of Selected Community Colleges' Reporting of Activities Classification Structure Data was to assess whether community colleges reported activities classification structure (ACS) data to the Department of Labor and Economic Growth (DLEG) in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual 2003 for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

Audit Scope

Our audit scope was to examine selected records supporting the activities classification structure data reported by seven community colleges for their fiscal year ended June 30, 2005. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We randomly selected the following 7 community colleges to be audited:

Bay de Noc Community College
Gogebic Community College
Henry Ford Community College
Kellogg Community College
Lake Michigan College
Lansing Community College
Mott Community College

After our field visits to the 7 randomly selected community colleges, we obtained from DLEG and reviewed the most recent ACS data reported by all 28 community colleges. Our analysis of this data identified 3 community colleges that had initiated changes to the ACS data used for our audit. Two colleges made changes based on our audit. However, the third college (Oakland Community College) made significant and

* See glossary at end of report for definition.

unanticipated changes that warranted a field visit to review records supporting these changes.

Audit Methodology

Our audit fieldwork was performed from January through April 2006. For the 7 randomly selected community colleges, we interviewed staff responsible for preparing and submitting ACS data at each college. We tested the reporting of general fund expenditure data at the activity and sub-activity levels and supporting documentation related to tuition rates and local financing. We also tested the accuracy of reported occupational contact hours*; contact hour, credit hour, and headcount totals; contact and credit hour calculations; and student transcripts. In addition, we tested supporting documentation for energy usage and costs and the accuracy of reported physical plant area and volume.

During March 2006, we determined that 3 community colleges had initiated changes to the ACS data previously reported to DLEG in November 2005. Two colleges made changes based on our audit. The third college made significant and unanticipated changes. We concluded that these changes warranted our review and, therefore, resulted in our visit to an eighth community college (Oakland Community College) during April 2006.

At Oakland Community College, we interviewed staff responsible for preparing and submitting the ACS course enrollment data to determine the reasons for the significant changes. We performed limited audit procedures to evaluate the propriety of the additional ACS data reported. These procedures included evaluating the accuracy of the additional reported occupational contact hours, contact and credit hours, and contact and credit hour calculations. On a sample basis, we reviewed and evaluated student transcripts related to the additional ACS data reported.

Subsequent Event

Subsequent to the completion of our audit fieldwork at 8 community colleges, we again obtained the most recent ACS data for all 28 community colleges from DLEG. Our analysis of this data identified that 3 additional community colleges had submitted ACS course enrollment data changes. One college made changes based on our audit.

* See glossary at end of report for definition.

Agency Responses

Our audit report includes 12 findings and 12 corresponding recommendations. We discussed our audit findings with the management of each community college. The community colleges' responses indicated general concurrence with our findings.

COMMENT, FINDINGS, AND RECOMMENDATIONS

ACCURACY OF REPORTED DATA

COMMENT

Background: The annual appropriations act for community colleges (Act 154, P.A. 2005) establishes November 1, 2005 as the date for community colleges to report their activities classification structure (ACS) data for school year 2004-05 to the Department of Labor and Economic Growth (DLEG). Also, Act 154, P.A. 2005, mandates the Auditor General to audit the ACS data submitted by 7 randomly selected community colleges. Examples of ACS data include student headcount, contact and credit hours, expenditures, and other activity measures. ACS data is used by the Legislature and various State departments and agencies, such as DLEG, the Department of Management and Budget, and the House and Senate Fiscal Agencies.

During January 2006, in accordance with the annual appropriations act for community colleges, the Office of the Auditor General randomly selected 7 community colleges to audit. During January, February, and March 2006, the Office of the Auditor General visited these 7 community colleges and performed auditing procedures that we considered necessary in the circumstances. During March 2006, we determined that 3 community colleges had initiated changes to the ACS data reported to DLEG in November 2005. Two colleges made changes based on our audit. The third college made significant and unanticipated changes. We concluded that these changes warranted our review and, therefore, resulted in our visit to an eighth community college in April 2006. Subsequent to the completion of our 8 field visits, 3 additional colleges submitted ACS course enrollment data changes to DLEG. One college made changes based on our audit.

The ACS Manual 2003 for Michigan Community Colleges (ACS Manual) instructs colleges to submit changes to their ACS 3 reports* (operating fund expenditures reports) to DLEG. However, the ACS Manual neither addresses changes to other ACS reports nor establishes a time frame or process for submitting changes. Of particular concern is DLEG's practice that allows the community colleges to continually change their reported ACS data. For school year 2004-05, 6 of the 28 community colleges submitted revised ACS data after the November 1 due date and, therefore, after our selection of colleges for audit. Although 3 colleges submitted changes based on our

* See glossary at end of report for definition.

audit, other substantial changes to the ACS data reported on November 1 detract from the value of the audit process.

Audit Objective: To assess whether community colleges reported ACS data to DLEG in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DLEG's annual instructions.

Conclusion: We concluded that the selected community colleges generally did not report ACS data to DLEG in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual, MUFR, and DLEG's annual instructions. Our audit disclosed five material conditions*. Eight colleges did not accurately report occupational contact hour data on their ACS 6 reports*, including four colleges that materially overstated their reported occupational contact hours (Finding 1). Two colleges did not maintain documentation to support the accuracy of course enrollment data reported on their ACS 6 reports in accordance with Act 154, P.A. 2005, and DLEG's annual instructions (Finding 2). Seven colleges did not accurately report ACS 3 expenditure data in accordance with the ACS Manual and DLEG's annual instructions (Finding 3). One college did not report student headcount and contact hour data on its ACS 6 reports in accordance with the ACS Manual and DLEG's annual instructions (Finding 4). Five colleges reported data for ineligible courses to DLEG on their ACS 6 reports (Finding 5).

Our audit also disclosed reportable conditions* related to expenditure reporting on ACS 3 reports, reporting of local financing, activity measures for energy and water costs, activity measures for physical plant, instructional activity classification, course contact hours, and seminar and conference course data (Findings 6 through 12).

Several of our audit findings pertain to more than one college; therefore, we have included a summary of the audit findings by college (Exhibit 2) as supplemental information to identify the specific colleges involved.

* See glossary at end of report for definition.

FINDING

1. Reporting of Occupational Contact Hours

Eight colleges did not accurately report occupational contact hour data on their ACS 6 reports (course enrollment data by instructional sub-activity - operating fund reports), including four colleges that materially overstated their reported occupational contact hours.

Accurate reporting of course enrollment data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 6 data is a key component of the funding formula used in the community college appropriation process. In addition, DLEG uses the ACS 6 contact hour and occupational contact hour data to distribute approximately \$18 million annually in Carl D. Perkins federal grant funds* to Michigan's community colleges. The reporting inaccuracies noted would not affect the overall amount of the Perkins grant award; however, these inaccuracies would affect the amounts received by each community college. Also, DLEG uses this data to distribute Community College At-Risk Students Success Program federal grant funds to the colleges.

The ACS Manual defines courses eligible for occupational contact hours as occupational specialty courses, supportive courses specifically designed for an occupational program, general occupational courses, and apprenticeship instruction only. The ACS Manual states that the majority of occupational contact courses are in business and human services, technical and industrial occupations, and health occupations (ACS codes 1.2, 1.3, and 1.4). Exceptions to this criteria include:

- a. The seven randomly selected colleges that we visited originally reported 8,843,384 occupational contact hours. However, 589,262 (6.7%) of these hours did not meet the criteria established by the ACS Manual. The colleges reported 573,349 (6.5%) occupational contact hours related to general education courses that were not occupational in nature, 6,127 (0.1%) occupational contact hours for courses that were not eligible for ACS reporting, and 9,786 (0.1%) occupational contact hours related to developmental education courses that were not occupational in nature. As a

* See glossary at end of report for definition.

result, Bay de Noc Community College, Lake Michigan College, and Lansing Community College materially overstated their occupational contact hours.

In addition, Mott Community College and Gogebic Community College underreported occupational contact hours by 1,056 hours for courses that were occupational in nature but not reported as such. Also, Gogebic Community College understated occupational contact hours for its cosmetology courses by reporting only the contact hours required for State licensure rather than the actual hours that students attended courses. We could not determine the amount of this understatement.

We have included a summary of occupational contact hours reported (Exhibit 1) as supplemental information to present the details of this exception by community college.

- b. Oakland Community College originally reported 2,256,009 occupational contact hours. However, during March 2006, the College revised this number and reported 2,792,294, an increase of 536,285 hours (23.8%). We limited our review to the ACS 6 occupational contact hour documentation associated with the 536,285-hour increase. Of the increase, 353,004 (12.6%) of the 2,792,293 total hours reported did not meet the criteria established by the ACS Manual. As a result, Oakland Community College materially overstated its occupational contact hours. These hours related to occupational status changes for 10 general education courses that were not occupational in nature.

RECOMMENDATION

We recommend that the colleges accurately report occupational contact hour data on their ACS 6 reports.

FINDING

2. Supporting Documentation for ACS 6 Data

Two colleges did not maintain documentation to support the accuracy of course enrollment data reported on their ACS 6 reports in accordance with Act 154, P.A. 2005, and DLEG's annual instructions. As a result, we could not audit significant portions of their submitted ACS data.

Accurate reporting of course enrollment data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 6 data is a key component of the funding formula used in the community college appropriation process. In addition, DLEG uses the ACS 6 contact hour and occupational contact hour data to distribute the Carl D. Perkins and the Community College At-Risk Student Success Program federal grant funds to the colleges.

The annual appropriations act for community colleges (Act 154, P.A. 2005) requires that community colleges maintain all records necessary for auditors to determine the accuracy of reported ACS data.

Our review of ACS 6 supporting documentation disclosed:

- a. Kellogg Community College did not maintain the documentation necessary to determine the accuracy of data reported on its ACS 6 report. The documentation supported headcount, contact hour, and credit hour totals; however, it did not support this data by individual ACS codes. In addition, the documentation did not support the occupational contact hour data in total or by individual ACS codes. As a result, we could not audit the ACS 6 headcount, contact hour, or credit hour data by ACS code and the ACS 6 occupational contact hour data by individual ACS codes or in total.
- b. Henry Ford Community College did not maintain the documentation necessary to determine the accuracy of all data reported on its ACS 6 report. Existing documentation supported headcount, contact hour, and occupational contact hour data; however, it did not support credit hour data. As a result, we could not audit the credit hour data on the ACS 6 report.

These two colleges were in material noncompliance with Act 154, P.A. 2005, and DLEG's annual instructions.

RECOMMENDATION

We recommend that the colleges maintain documentation to support the accuracy of course enrollment data reported on their ACS 6 reports in accordance with Act 154, P.A. 2005, and DLEG's annual instructions.

FINDING

3. Classification of ACS 3 Expenditure Data

Seven colleges did not accurately report ACS 3 expenditure data in accordance with the ACS Manual and DLEG's annual instructions. Two of the seven colleges materially misclassified their ACS 3 expenditure data.

The ACS Manual identifies 17 ACS code numbers (categories) in which expenditures are to be reported. Accurate reporting of expenditure data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 3 activity and sub-activity expenditure data is a key component of the funding formula used in the community college appropriation process.

Our review disclosed:

- a. Henry Ford Community College materially misclassified expenditures related to 16 ACS codes by approximately \$5,768,000 (9.1%). Also, the College understated its expenditures associated with institutional administration by approximately \$1,596,000 (26.5%).
- b. Kellogg Community College materially misclassified expenditures related to 17 ACS codes by approximately \$3,441,000 (12.0%). Also, the College understated its expenditures associated with institutional administration by approximately \$237,000 (9.0%).
- c. Lansing Community College misclassified expenditures related to 16 ACS codes by approximately \$3,149,000 (3.7%). Also, the College understated its expenditures associated with institutional administration by approximately \$56,000 (0.6%).
- d. Lake Michigan College misclassified expenditures related to 10 ACS codes by approximately \$897,000 (4.5%). Also, the College overstated its expenditures associated with institutional administration by approximately \$329,000 (8.4%).
- e. Mott Community College misclassified expenditures related to 10 ACS codes by approximately \$978,000 (1.7%). Also, the College understated its expenditures associated with institutional administration by approximately \$100,000 (1.3%).

- f. Bay de Noc Community College misclassified expenditures related to 6 ACS codes by approximately \$168,000 (1.4%). Also, the College overstated its expenditures associated with institutional administration by approximately \$69,000 (4.3%).
- g. Gogebic Community College misclassified expenditures related to 2 ACS codes by approximately \$27,000 (3.6%). Also, the College overstated its expenditures associated with institutional administration by approximately \$18,000 (1.5%).

RECOMMENDATION

We recommend that the colleges accurately report ACS 3 expenditure data in accordance with the ACS Manual and DLEG's annual instructions.

FINDING

4. Reporting of Student Headcount and Contact Hours

Lansing Community College did not report student headcount and contact hour data on its ACS 6 reports in accordance with the ACS Manual and DLEG's annual instructions.

Accurate reporting of course enrollment data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 6 data is a key component of the funding formula used in the community college appropriation process. In addition, DLEG uses the ACS 6 contact hour and occupational contact hour data to distribute the Carl D. Perkins and the Community College At-Risk Student Success Program federal grant funds to the colleges.

Lansing Community College did not tabulate and report duplicated in-district, out-of-district, and total student headcount data for all ACS codes on its ACS 6 report in accordance with the ACS Manual and DLEG's annual instructions. Also, the College did not report in-district and out-of-district contact hours in accordance with the ACS Manual and DLEG's annual instructions on its ACS 6 report for general education (ACS code 1.1).

Our review of Lansing Community College's ACS 6 supporting documentation disclosed:

- a. The College materially understated total duplicated student headcount data by 23,077 (35.8%) for in-district, by 17,184 (38.8%) for out-of-district, and by 40,261 (37.0%) in total.
- b. The College overstated in-district contact hours by 44,184 (1.2%), understated out-of-district contact hours by 44,120 (1.7%), and overstated total contact hours by 64 (.001%) for general education (ACS code 1.1).

RECOMMENDATION

We recommend that Lansing Community College report student headcount and contact hour data on its ACS 6 reports in accordance with the ACS Manual and DLEG's annual instructions.

FINDING

5. Reporting of Courses on ACS 6 Reports

Five colleges reported data for ineligible courses on their ACS 6 reports. The colleges did not provide instructional activities for these courses and they did not meet the reporting criteria established by the ACS Manual.

ACS 6 data is a key component of the funding formula used in the community college appropriation process. Reporting data for ineligible courses inflates the enrollment data reported by the colleges. Also, DLEG uses the ACS 6 contact hour and occupational contact hour data to distribute the Carl D. Perkins and the Community College At-Risk Student Success Program federal grant funds to the colleges.

Our review of the ACS 6 supporting documentation disclosed:

- a. Kellogg Community College reported course data (including the number of courses and sections, student headcount, contact hours, and occupational contact hours) for ineligible courses on its ACS 6 report. These courses were ineligible for ACS reporting because the College did not provide any instructional activity.

Kellogg Community College established a cooperative agreement with local K-12 school districts. The K-12 school districts developed the course curriculums; selected, supervised, and paid the instructors; registered the students; collected and retained tuition payments; and taught the courses at the K-12 facilities in exchange for a nominal payment per contact hour from the College. Although the College paid the K-12 districts for these courses, it did not provide instructional activities.

Kellogg Community College's reporting of these ineligible courses on its ACS report materially overstated its headcount by 4,438 (7.9%), contact hours by 129,142 (6.0%), and occupational contact hours by 2,799 (0.3%) (see Exhibit 1).

- b. Five colleges reported ineligible ACS 6 data related to certain Web-based courses. This data did not meet the reporting criteria established by the ACS Manual because the colleges used Web-based companies to create, staff, and maintain standardized Web-based courses. The colleges facilitated student registration and updated student transcripts for these courses; however, the colleges did not provide any instructional activity.

These five colleges reported ineligible course data (including the number of courses and sections, student headcount, contact hours, occupational contact hours, and credit hours) relating to courses for which the colleges performed no instructional activities. As a result:

- (1) Henry Ford Community College overstated contact hours by 9,336 and overstated occupational contact hours by 20.
- (2) Mott Community College overstated contact hours by 2,781 and overstated occupational contact hours by 2,049.
- (3) Bay de Noc Community College overstated contact hours by 1,015 and overstated occupational contact hours by 847.
- (4) Lake Michigan College overstated contact hours by 60 and overstated occupational contact hours by 60.
- (5) Kellogg Community College overstated contact hours by 150.

RECOMMENDATION

We recommend that the colleges report data for only eligible courses on their ACS 6 reports.

FINDING

6. Expenditure Reporting on ACS 3 Reports

Two colleges reported expenditures on their ACS 3 reports that did not meet the criteria established by the ACS Manual.

Accurate reporting of expenditure data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 3 activity and sub-activity expenditure data is a key component of the funding formula used in the community college appropriation process. Our review disclosed:

- a. Kellogg Community College overstated its ACS 3 expenditures by \$197,660. These expenditures resulted from the cooperative agreement between the College and its local K-12 school districts for providing ineligible courses. Under the agreement, the K-12 school districts developed the course curriculums; selected, supervised, and paid the instructors; registered students; collected and retained tuition payments; and taught the courses at the K-12 facilities in exchange for a nominal payment per contact hour from the College. Although the College paid the K-12 districts for these courses, it did not provide instructional activities. Thus, the courses did not meet the reporting criteria established by the ACS Manual (see Finding 5.a.).
- b. Lake Michigan College overstated its institutional administration (ACS code 6.0) expenditures by \$34,934. These expenditures resulted from the College purchasing personal computers for some of its employees who, in turn, reimbursed the College for the expenditures incurred.

RECOMMENDATION

We recommend that the colleges report only those expenditures on their ACS 3 reports that meet the criteria established by the ACS Manual.

FINDING

7. Reporting of Local Financing

Two colleges did not accurately report their voted operating millage rates on their ACS 5 reports* (tuition, taxable value, and millage data reports) in accordance with the ACS Manual and DLEG's annual instructions.

Accurate reporting of tuition, taxable value, and millage data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 5 data is a key component of the funding formula used in the community college appropriation process.

The following tables disclose the overstatements (understatements) that we identified during our review of the ACS 5 supporting documentation:

a. Henry Ford Community College

	Fiscal Year Ended June 30, 2004			Fiscal Year Ended June 30, 2005		
	Reported By College	Audited Value	Overstatement (Understatement)	Reported By College	Audited Value	Overstatement (Understatement)
Taxable value	\$4,386,237,934	\$4,386,237,934	None	\$4,386,237,934	\$4,487,206,624	(\$100,968,690)
Millage Rates:						
Debt retirement millage	1.9000	0.5700	1.3300	1.9000	0.5400	1.3600
Voted operating millage	2.5000	2.5000	None	2.9596	3.0000	(.0404)
Levied operating millage	2.4596	2.4596	None	2.9596	3.0000	(.0404)

b. Lake Michigan College

	Fiscal Year Ended June 30, 2004			Fiscal Year Ended June 30, 2005		
	Reported By College	Audited Value	Overstatement (Understatement)	Reported By College	Audited Value	Overstatement (Understatement)
Taxable value	\$6,167,242,584	\$6,074,390,868	\$92,851,716	\$6,283,304,913	\$6,519,420,113	(\$236,115,200)
Millage Rates:						
Levied operating millage	1.8177	1.8174	.0003	1.8060	1.8060	None

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that the colleges accurately report their voted operating millage rates on their ACS 5 reports in accordance with the ACS Manual and DLEG's annual instructions.

FINDING

8. Activity Measures for Energy and Water Costs

Six colleges did not accurately report energy and water expenditures on their ACS 7 reports* (expenditures and activity measures - physical plant and energy reports) in accordance with DLEG's annual instructions.

Accurate reporting of energy and water expenditure data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 7 data is a key component of the funding formula used in the community college appropriation process.

Our review of ACS 7 supporting documentation disclosed:

- a. Henry Ford Community College understated electricity expenditures by \$117,896 (15.9%) and understated water expenditures by \$22,547 (35.4%).
- b. Bay de Noc Community College overstated gas expenditures by \$17,187 (6.3%), overstated electricity expenditures by \$11,776 (6.3%), and overstated water expenditures by \$917 (6.3%).
- c. Lake Michigan College overstated gas expenditures by \$4,681 (2.6%), overstated electricity expenditures by \$5,438 (1.4%), and overstated water expenditures by \$742 (2.1%).
- d. Kellogg Community College overstated gas expenditures by \$3,626 (1.8%), overstated electricity expenditures by \$8,446 (1.8%), and overstated water expenditures by \$859 (1.8%).

* See glossary at end of report for definition.

- e. Lansing Community College overstated gas expenditures by \$11,691 (1.2%) and overstated electricity expenditures by \$5,308 (5.4%).
- f. Mott Community College overstated gas expenditures by \$6,282 (0.8%), overstated electricity expenditures by \$7,573 (0.8%), and overstated water expenditures by \$1,658 (0.8%).

RECOMMENDATION

We recommend that the colleges accurately report energy and water expenditures on their ACS 7 reports in accordance with DLEG's annual instructions.

FINDING

9. Activity Measures for Physical Plant

Lansing Community College did not accurately report its square and cubic footage associated with college-owned facilities on its ACS 7 report (expenditures and activity measures - physical plant and energy reports) in accordance with DLEG's annual instructions.

Accurate reporting of square and cubic footage data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 7 data is a key component of the funding formula used in the community college appropriation process.

Our review of ACS 7 supporting documentation disclosed that Lansing Community College understated its building square footage by 102,315 (6.5%) square feet. The College also understated its cubic footage by 1,825,487 (10.5%) cubic feet.

RECOMMENDATION

We recommend that Lansing Community College accurately report its square and cubic footage associated with college-owned facilities on its ACS 7 report in accordance with DLEG's annual instructions.

FINDING

10. Instructional Activity Classification

Six colleges did not accurately classify courses on their ACS 6 reports in accordance with the ACS Manual.

Accurate reporting of course enrollment data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges.

The ACS Manual requires that colleges classify and report course enrollment data in seven instructional sub-activities based on subject matter and content. The ACS Manual adds further guidance with extensive listings of course subject matter by instructional activity classification. Sub-activities include general education, business and human services, technical and industrial occupations, health occupations, developmental education and basic skills, human development, and personal interest (ACS codes 1.1 through 1.7). Proper ACS code classification assists colleges in determining whether the contact hours for a course are occupational (see Finding 1).

Our review of ACS 6 supporting documentation disclosed:

- a. Kellogg Community College reported enrollment data for a total of 1,992 courses. However, 242 (12.2%) courses were reported using incorrect ACS codes.
- b. Lansing Community College reported enrollment data for a total of 1,465 courses. However, 60 (4.1%) courses were reported using incorrect ACS codes.
- c. Mott Community College reported enrollment data for a total of 1,129 courses. However, 56 (5.0%) courses were reported using incorrect ACS codes.
- d. Henry Ford Community College reported enrollment data for a total of 1,262 courses. However, 53 (4.2%) courses were reported using incorrect ACS codes.

- e. Lake Michigan College reported enrollment data for a total of 520 courses. However, 10 (2.0%) courses were reported using incorrect ACS codes.
- f. Bay de Noc Community College reported enrollment data for a total of 472 courses. However, 9 (1.9%) courses were reported using incorrect ACS codes.

RECOMMENDATION

We recommend that the colleges accurately classify courses on their ACS 6 reports in accordance with the ACS Manual.

FINDING

11. Course Contact Hours

Henry Ford Community College did not perform an actual calculation of contact hours for a random sample of courses in accordance with the ACS Manual.

Accurate reporting of contact hour data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. Contact hour data is a key component of the funding formula used in the community college appropriation process.

The ACS Manual requires that colleges reporting contact hours on a course basis perform an actual calculation on a random sample of course sections to verify that the reported contact hours do not exceed the actual contact hours by more than 5%.

RECOMMENDATION

We recommend that Henry Ford Community College perform an actual calculation of contact hours for a random sample of courses in accordance with the ACS Manual.

FINDING

12. Seminar and Conference Course Data

Bay de Noc Community College did not report seminar and conference course enrollment data on its ACS 6 report in accordance with the ACS Manual and DLEG's annual instructions.

Accurate reporting of course enrollment data is necessary to allow users to make fiscal decisions and comparisons based on meaningful, uniform information from all 28 community colleges. ACS 6 data is a key component of the funding formula used in the community college appropriation process.

Our review of Bay de Noc Community College's ACS 6 supporting documentation disclosed:

- a. The College inappropriately reported data related to two seminars as multiple courses and multiple sections. As a result, the College overstated the number of courses and sections by 24 for each seminar.
- b. The College miscalculated and overstated the number of credit hours for 146 community education courses by 697 hours. The College did not calculate credit hours in accordance with ACS Manual requirements.

RECOMMENDATION

We recommend that Bay de Noc Community College report seminar and conference course enrollment data on its ACS 6 report in accordance with the ACS Manual and DLEG's annual instructions.

SUPPLEMENTAL INFORMATION

SELECTED COMMUNITY COLLEGES' REPORTING OF
 ACTIVITIES CLASSIFICATION STRUCTURE (ACS) DATA
 Summary of Occupational Contact Hours Reported
July 1, 2004 through June 30, 2005

	Bay de Noc Community College*		Lake Michigan College*		Lansing Community College*	
	Hours	Percentage	Hours	Percentage	Hours	Percentage
Total Number of Occupational Contact Hours Reported	506,497		552,779		3,063,999	
Number and Percentage of Occupational Contact Hours Overreported for:						
General education courses not occupational in nature	72,512	14.3%	69,861	12.6%	349,136	11.4%
Courses not eligible for ACS reporting	847	0.2%	60		**	
Developmental education courses not occupational in nature	**		**		**	
Total Number and Percentage of Occupational Contact Hours Overreported	73,359	14.5%	69,921	12.6%	349,136	11.4%
Number of Occupational Contact Hours Underreported for:						
Eligible courses identified but not reported	**		**		**	

* This community college materially overstated its occupational contact hours (see Finding 1.a.).

** None identified.

Mott Community College		Kellogg Community College		Gogebic Community College		Henry Ford Community College		Total for Seven Randomly Selected Colleges Visited	
Hours	Percentage	Hours	Percentage	Hours	Percentage	Hours	Percentage	Hours	Percentage
<u>1,715,214</u>		<u>906,245</u>		<u>177,110</u>		<u>1,921,540</u>		<u>8,843,384</u>	
71,807	4.2%	9,393	1.0%	640	0.4%	**		573,349	6.5%
2,049	0.1%	2,799	0.3%	352	0.2%	20		6,127	0.1%
<u>4,674</u>	<u>0.3%</u>	<u>**</u>		<u>**</u>		<u>5,112</u>	<u>0.3%</u>	<u>9,786</u>	<u>0.1%</u>
<u>78,530</u>	<u>4.6%</u>	<u>12,192</u>	<u>1.3%</u>	<u>992</u>	<u>0.6%</u>	<u>5,132</u>	<u>0.3%</u>	<u>589,262</u>	<u>6.7%</u>
<u>768</u>		<u>**</u>		<u>288</u>		<u>**</u>		<u>1,056</u>	

SELECTED COMMUNITY COLLEGES' REPORTING OF
ACTIVITIES CLASSIFICATION STRUCTURE DATA

Summary of Audit Findings by College
July 1, 2004 through June 30, 2005

Audit Finding	Bay de Noc Community College	Gogebic Community College	Henry Ford Community College	Kellogg Community College	Lake Michigan College	Lansing Community College	Mott Community College	Oakland Community College
1	X	X	X	X	X	X	X	X
2			X	X				
3	X	X	X	X	X	X	X	
4						X		
5	X		X	X	X		X	
6				X	X			
7			X		X			
8	X		X	X	X	X	X	
9						X		
10	X		X	X	X	X	X	
11			X					
12	X							

GLOSSARY

Glossary of Acronyms and Terms

ACS	activities classification structure.
ACS Manual	Activities Classification Structure Manual 2003 for Michigan Community Colleges.
ACS 3 report	The operating fund expenditures report, which the colleges use to report operating fund expenditures at the sub-activity and activity levels, ACS codes 1.1 through 7.3. This information is a key component in the funding formula used in the appropriation process. Expenditures must be consistent with the audited financial statements for the college. Activity and sub-activity reporting must correspond with enrollment data reported on the ACS 6 report.
ACS 5 report	The tuition, taxable value, and millage data report, which the colleges use to report information on tuition rates, taxable value, and local financing. This information is a key component in the funding formula used in the appropriation process.
ACS 6 report	The course enrollment data by instructional sub-activity - operating fund report, which the colleges use to report enrollment data, such as unduplicated student headcount by in-district and out-of-district classification, number of courses and sections delivered, duplicated student headcount, student contact hours, occupational education student contact hours, semester student credit hours, fiscal year equated students, and contact hour equated students by ACS activity and sub-activity levels, ACS codes 1.0 through 1.7. This information is a key component in the funding formula used in the appropriation process. Contact hour and occupational contact hour information is the basis for the distribution of the Carl D. Perkins federal grant funds. Enrollment data reported on the ACS 6 report must

correspond with expenditure data reported on the ACS 3 report.

ACS 7 report

The expenditures and activity measures - physical plant and energy report, which the colleges use to report information on utility services and physical plant square and cubic footage. This information is a key component in the funding formula used in the appropriation process.

Carl D. Perkins
federal grant funds

Grant funds awarded under the Carl D. Perkins Vocational and Technical Education Act. The Act was originally authorized in 1984 and most recently reauthorized in October 1998. The purpose of the Act is to provide individuals with the academic and technical skills needed to succeed in a knowledge-based and skills-based economy. The Act supports career and technical education that prepares students for both postsecondary education and the careers of their choice.

contact hour

Fifty minutes of student instruction in which the student is scheduled to come into contact with an instructor or with tutorial or laboratory equipment.

DLEG

Department of Labor and Economic Growth.

funding formula

The Gast-Mathieu Fairness in Funding Formula for community colleges, which was first presented in the 1984 appropriations act for community colleges. The funding formula calculates a dollar amount of need for each college based on instructional and noninstructional costs, tax equalized grants, local and student funding responsibility, and other sources of revenue available to each college. The formula applies Statewide average cost factors to activity measures specific to each college, thereby estimating the total expenditures each college should ideally expect to incur.

material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MUFR	Manual for Uniform Financial Reporting of Michigan Public Community Colleges.
occupational contact hour	Fifty minutes during which a student is scheduled to come into contact with an instructor or with tutorial or laboratory equipment for instruction with a direct career relationship designed to impart work-related knowledge. Occupational contact hours are predominately found under ACS codes 1.2, 1.3, and 1.4. Occasionally (and these are exceptions), some occupational education courses are found in ACS code 1.1. Occupational contact hours cannot be reported for ACS codes 1.6 and 1.7 as they are not eligible for federal occupational funding.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

